

# LEGISLATIVE AUDIT COMMISSION



Review of  
Office of the Secretary of State  
Two Years Ended June 30, 2003

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**REVIEW: 4199**  
**OFFICE OF THE SECRETARY OF STATE**  
**TWO YEARS ENDED JUNE 30, 2003**  
**FINDINGS/RECOMMENDATIONS - 9**  
**ACCEPTED - 3**  
**IMPLEMENTED - 6**  
**REPEATED RECOMMENDATIONS - 5**  
**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 14**

This review summarizes an audit of the Office of the Secretary of State for the two years ended June 30, 2003, filed with the Legislative Audit Commission May 5, 2004. The auditors performed a financial and compliance audit in accordance with State law and government auditing standards. The auditors stated that the financial statements of the Office were fairly presented.

The Office of the Secretary of State has diverse responsibilities including the registering and titling of motor vehicles, issuing drivers' licenses, scheduling and conducting formal and informal hearings on driving privileges and registration matters; administering Safety and Financial Responsibility laws; maintaining a vast data processing system which also assists law enforcement with immediate driver and motor vehicle information, and maintaining a Department of Police to enforce compliance with the provisions of the Illinois Vehicle Code and investigate code violations.

The Office's other responsibilities include issuing corporate charters and certificates; registering dealers, brokers, agents and investment advisors for securities; regulating the issuance of securities and enforcement of the Illinois Securities Law; and retaining Uniform Commercial Code filings reflecting security interests of creditors financing businesses on the basis of secured transactions.

The Office is responsible for filing a significant number of legal and statutory documents, including Public Acts passed by the General Assembly, gubernatorial and amendatory vetoes, and registering trademarks, copyrights, notaries public and lobbyists. The Secretary of State serves as the Illinois State Librarian, State Archivist, and Ex-Officio Clerk of the Court of Claims. The Office publishes the Rules of the Road, the Handbook of Illinois Government, the Illinois Blue Book, the Illinois Administrative Code, as well as other general educational materials for public distribution.

Appendix A contains a summary of some of the transactions in the Office's vehicle and driver services departments and the number of corporations registered with the Office of the Secretary of State. During FY03 over 7.3 million passenger car plates were issued.

The Honorable Jesse White, who took office January 11, 1999, was Secretary of State for the period under review.

The average number of employees was:

|                       | FY03              |            | FY02              |            | FY01              |            |
|-----------------------|-------------------|------------|-------------------|------------|-------------------|------------|
| Operating Groups      | Regular Positions | Extra Help | Regular Positions | Extra Help | Regular Positions | Extra Help |
| Executive             | 78                | 3          | 81                | 3          | 80                | 4          |
| General Admin.        | 1,161             | 60         | 1,207             | 61         | 1,187             | 65         |
| Motor Vehicles        | 2,394             | 339        | 2,528             | 317        | 2,518             | 331        |
| <b>TOTAL</b>          | <b>3,633</b>      | <b>402</b> | <b>3,816</b>      | <b>381</b> | <b>3,785</b>      | <b>400</b> |
| <b>Average Salary</b> | <b>\$39,745</b>   |            | <b>\$37,174</b>   |            | <b>\$35,861</b>   |            |

### Expenditures From Appropriations

The General Assembly appropriated a total of \$358,043,701 to the Office in FY03, from 29 different funds. The Office expended \$170,990,971 from non-appropriated funds. Expenditures for FY03 from appropriated funds were \$333,909,533, which represents a decrease of \$12,051,779, or 3.5%, over FY02 expenditures. Thirty-six percent of the Office's appropriated expenditures were from the General Revenue Fund and 35% were from the Road Fund, compared to 50% and 21%, respectively, in FY02. Appendix B is a summary of appropriations and expenditures by fund and summarizes expenditures from nonappropriated funds. The largest nonappropriated fund is the International Registration Plan Fund which reflects payments from states in which truck owners, residing in other states, pay for Illinois truck registration through their home state.

Appendix C summarizes the expenditures by major object code during FY03-FY01. Significant decreases in expenditures occurred as follows:

- \$9.3 million decrease in the Motor Vehicle License Plate Fund due to the completion of most of the replating program;
- \$3.4 million decrease in the Special Services Fund; \$2.3 million decrease in Library Technology grants; and \$7 million decrease in other lump sums due to budget constraints; and
- \$191,221 decrease in the Alternate Fuels Fund. The program ended due to budget constraints.

### Cash Receipts

Appendix D is a summary of the Office's cash receipts for FY01 through FY03 by Fund. Also listed are total receipts remitted to the Comptroller according to service and department. The vast majority of the Office's cash receipts are from vehicle services—\$1.39 billion—even though receipts decreased \$90.1 million, or 6.1%, from FY02 to FY03, in license fees and registration. There was a \$15.9 million decrease in business services almost entirely attributable to a decrease in corporation taxes and fees.

## **Property and Equipment**

Appendix E is a summary of property and equipment for FY03 and FY02. Total property and equipment increased from \$392,607,102 as of July 1, 2001 to \$407,673,846 as of June 30, 2003. The Office of the Secretary of State's balance sheet includes the Howlett Building, the Willard Ice Building, the Library Building, the Capitol Building in Springfield, and others.

## **Accountants' Findings and Recommendations**

Condensed below are the nine findings and recommendations presented in the audit report. There were five repeated recommendations. The following recommendations are classified on the basis of information provided in the original audit report and updated on June 23, 2004 by Al DiSilvestro, Chief Auditor and Jacki DiCianni, Executive Assistant to the Secretary of State.

## **Accepted or Implemented**

- 1. Require documentation justifying the business need of assigning a State vehicle to any Office employee. Review assignment of State vehicles on a quarterly basis to ensure continued business purpose for the vehicles and document the review.**

**Findings:** Secretary of State employees have been assigned State vehicles without documentation of a business need for the vehicles. As of June 30, 2003, 82 State vehicles were personally assigned to Office employees (excluding Secretary of State Police). However, the Office did not have documentation on file providing justification for the business purpose of personally assigning the vehicles.

According to the Office's Rules manual, authorization for individual assignment of vehicles is to be granted only if one or more of the following conditions are met:

- The vehicle is specially equipped to perform law enforcement services and the law enforcement employee is on call 24 hours a day.
- The employee's work assignment requires traveling to numerous locations over a considerable territory with infrequent stops at the employee's headquarters.
- When the employee is regularly subject to special or emergency calls from his/her residence during non-duty hours.
- When it is in the best interest of the Office.

## **Accepted or Implemented - continued**

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The auditors noted that the Office did not document whether employees assigned a vehicle met any of the above criteria.

One employee with a position of “private secretary” was assigned a State vehicle. The employee works in Springfield, but lives in Centralia, which is a one-way commute of approximately 100 miles. Monthly Automotive Cost Reports indicated the employee drove 17,590 miles in the four months after the employee was assigned the vehicle. Management stated the employee stopped to make facility visits while driving to and from work, but could not substantiate the visits. The Office did include the value of \$3/day in the employee’s taxable wages for commuting in accordance with IRS regulations. However, the actual cost to the State is approximately \$72/day. There was no documentation why the vehicle assignment was “in the best interest of the Secretary of State.” There is no log or purpose of travel required from employees driving personally assigned State vehicles.

**Response:** Accepted. The SOS’s office has implemented or is implementing the following procedures.

The SOS’s office has created a personally assigned vehicle (PAV) form that must be filled out annually by the operator of the vehicle. These forms must be turned in to the Department of Physical Service – Property Control Office, where they will be kept on file. The form contains:

- Information about the driver and the vehicle;
- Attachments verifying the driver’s insurance and income tax responsibilities;
- Authorization to drive a PAV from the Department’s director;
- An explanation from the Department director justifying the business need of assigning a State vehicle to an office employee;
- Approval to use a PAV from the Chief of Staff.

In addition, all persons who drive a PAV, upon turning in their annual form, will receive a memo reiterating their duties and responsibilities as an operator of a PAV.

The SOS office is now requiring all departments that have motor pool vehicles or employees who drive PAVs appoint a motor vehicle coordinator. The coordinator will work with the Department of Physical Services – Property Control Office to ensure that all paperwork and documents relating to vehicles in their departments are completed correctly and on time. Specifically, this will apply to the turning in of the monthly automotive cost reports, which tracks gasoline and maintenance purchases, plus odometer readings. These reports will allow the Department of Physical Services – Property Control Office and the departmental motor vehicle coordinator to monitor and track usage of PAVs and ensure that the car is being used appropriately.

The Department motor vehicle coordinators will, on a quarterly basis, review the need for persons within their Departments to have a PAV and will submit a letter to the Department of Physical Services – Property Control Office, stating that the need still exists or no longer exists.

**Updated Response:** Following our initial review of the business purposes of personally assigned vehicles, the Office reassigned vehicles from Secretary of State employees. This includes removing all vehicles previously assigned to department directors and deputy directors. These vehicles have been reassigned to Secretary of State employees in the field and the remaining are awaiting either disposal or reassignment.

**2. Strengthen controls regarding State vehicles as follows:**

- **Communicate the requirement to file accident reports in a timely manner to those employees whose jobs involve travel. The Vehicle Coordinator should monitor the submission of accident reports to ensure the DCMS requirements are being followed.**
- **Enforce the requirement that employees file properly completed Monthly Automotive Cost Reports with all required documentation in a timely manner.**
- **Monitor the Chicago motor pool activity to ensure that motor pool vehicles are not treated as personally assigned vehicles without following the appropriate procedures.**

**Findings:** The Office did not have adequate procedures over its State vehicles. The auditors noted accidents involving State vehicles were not reported timely, receipts supporting gasoline usage were not maintained, and employees were driving motor pool vehicles for extended periods and not reporting commuting mileage.

When the auditors tested 10 of 35 accidents reported, six of the 10 accidents selected for testing were not reported to CMS within the required seven calendar days.

The auditors reviewed two Monthly Automotive Cost Reports for a sample of 25 employees assigned State vehicles. Six of 25 employees had not submitted this report for one or both months. Of the 19 employees who had submitted the reports, five submitted incomplete information, six had missing gas receipts, and 15 had gas receipts with incomplete information (no signature, odometer information or vehicle identification).

Two Chicago motor pool vehicles were used by Office employees consecutively for six and eight months, respectively, without adjustment of the employees' wages for the value of the personal use of those vehicles.

**Response:** Accepted. SOS has implemented or is implementing the following procedures.

**Accepted or Implemented - continued**

**Accident Submission Reports**

All persons who use a motor pool vehicle will be given a short memo that they must read before taking the vehicle. The memo outlines the person's responsibilities while driving

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the car, including highlighting what to do in case of an accident. The person will be required to sign the memo, indicating that they have read and understand the memo. This process will be repeated whenever a person takes a motor pool car, with the exception of persons who do so as a regular part of their job (i.e. pony drivers, etc.)

All persons assigned a PAV will be given the memo when they fill out their annual form and will also have to sign it.

It will be the responsibility of the vehicle coordinator for each department to get these reports within 48 hours of the accident and return them to the Property Control Office. It will be the responsibility of the Property Control Office to see that these reports are turned in to CMS.

### **Monthly Automotive Cost Reports**

As noted above, the SOS Office is now requiring that all departments that have motor pool vehicles or employees who drive PAVs appoint a motor vehicle coordinator. One of the prime duties of the coordinator will be to collect the monthly Automotive Cost Report of its employees driving a PAV. The employee must submit that report to the coordinator by the 4<sup>th</sup> of every month. The coordinator must then ensure the report is correct and contains receipts and then send it to the Secretary of State Property Control Office by the 7<sup>th</sup> of every month.

The motor vehicle coordinator for each department will be trained in these procedures and will be held responsible if they are not followed.

### **Motor Pool Vehicles**

Every non-assigned vehicle in the Secretary of State's Office will have its own log. It is the responsibility of the motor vehicle coordinator for each Department that has motor pool cars to ensure that these logs are filled out and that they are sent to Property Control by the 7<sup>th</sup> of every month, whether the car has been used for that month or not.

### **Liability Insurance**

Every person who operates a personally assigned vehicle will have to attach a copy of their insurance form when they fill out their annual PAV form. In addition, they will be responsible for keeping that form updated with Property Control. However, Property Control will also monitor its files to know when a person's insurance expires. If Property Control does not have a copy of that person's renewal, it shall inform the appropriate motor vehicle coordinator, who shall collect the information. Failure to provide the information in a timely manner will result in a loss of the PAV.

**Updated Response:** In the past, the property control manager has overseen all Secretary of State motor vehicles as part of his job responsibilities. A fleet manager will be specifically in charge of monitoring car use, ensuring all forms are correctly filed and coordinating with departmental motor vehicle coordinators.

**3. Only accept surety bonds or certificates of deposit that are fully collateralized or insured to avoid unnecessary exposure for the State. (Repeated-2001)**

**Findings:** The Office accepted a certificate of deposit with a balance that exceeded the \$100,000 Federal Deposit Insurance Corporation (FDIC) coverage.

When the auditors reviewed the locally-held Go-Back Fund, they noted that the Office is accepting certificates of deposit as guarantees of future installment payments. These certificates of deposit are accepted as security from vehicle owners who elect to pay the flat weight tax in semi-annual installments.

Large trucking companies often pay the flat weight tax for a large number of vehicles and guarantee the second semi-annual installment with a large-value certificate of deposit issued by a bank or savings and loan association. At June 30, 2003, total certificates of deposit on deposit in the Go-Back Fund totaled \$1,261,748 with one certificate exceeding FDIC insurance coverage by \$145,014. Office personnel stated they overlooked this one certificate.

**Response:** Accepted. The SOS has implemented additional internal controls to ensure that only surety bonds or certificates of deposit that are fully collateralized or insured are accepted.

**4. Comply with the requirements of the Fiscal Control and Internal Auditing Act.**

**Findings:** The Office did not comply with the Fiscal Control and Internal Auditing Act (FCIAA). No internal audits of grants received or made by the Office were performed during the audit period. Audits of major systems should be conducted every two years. Management stated that they focused their limited resources on auditing other areas deemed more significant.

FCIAA requires an annual certification on the systems of internal fiscal and administrative control be filed with the Auditor General. The FCIAA Certification for FY02 due May 1, 2002 was not filed with the Auditor General until October 10, 2002. The FY03 Certification was filed August 11, 2003. Management stated that due to the complex organizational structure of the Office, the Internal Audit Department had not been able to collect the certifications that were completed by each department within the Office. The certifications were to be completed and forwarded to the Internal Audit Department, where they would be analyzed and combined into a single report.

**Accepted or Implemented - continued**

**Response:** Accepted. The SOS will comply with the Fiscal Control and Internal Auditing Act regarding the audit of grants received or made by the Secretary of State and FCIAA Certification. The Secretary of State will ensure they are completed in a timely manner.



**Updated Response:** The Secretary of State's Internal Audit Department has completed the requirements regarding the audit of grants received or made by the Secretary of State and FCIAA Certification as required under the Fiscal Control and Internal Auditing Act.

**5. Conduct detailed reviews of significant system development and modification projects as required by law. (Repeated-1999)**

**Findings:** The Office completed six major system development projects during the audit period—STAR System, Temporary Registration Permits System; Hearing Officers System; Currency Exchange System; Insurance Company Access System; and Safe Driver System. The Internal Audit Department actively participated in only one of the six development projects. FCIAA requires that the Internal Audit Department review the design of new electronic data processing systems and major modifications to systems prior to their installation to ensure that adequate audit trails and accountability are provided.

Internal Audit personnel stated it was not notified of the modifications to four of the applications developed during the audit period. The fifth application was not reviewed prior to installation due to the relatively short time span of the implementation, which was three months.

The Department of Information Technology has approximately 133 full-time positions supporting a mainframe, over 250 end-user computer systems in the facilities throughout the State, and a network of nearly 4,000 PCs.

**Response:** Implemented. The Secretary of State has established a specific new procedure with the Internal Audit Department and Department of Information Technology that will make certain that review of all major system developments and modification projects are completed as required by the Fiscal Control and Internal Auditing Act. In addition, these reviews will be conducted in conjunction with our outside IT auditors who will ensure a complete review of the projects.

**Updated Response:** The Secretary of State Audit Department has implemented a procedure to review all major system developments and modification projects that are being completed by our Department of Information Technology. Working in conjunction with our outside Information Technology consultants, we are reviewing numerous systems and projects as required by the Fiscal Control and Internal Auditing Act.

**6. Analyze postage needs for the beginning of the next fiscal year to determine a reasonable carryover balance and to match postage expenditures with the proper fiscal year.**

**Findings:** The Office is requesting postage for their meters and postage warrants at the end of the fiscal year in excess of reasonably expected usage. At June 30, 2003, the Office had \$2.4 million of postage on hand. Postage on hand was 28% of total FY03

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postage expenditures, which totaled almost \$8.7 million. The postage warrants on hand at June 30, 2003 were not expended until the latter part of the lapse period or after the lapse period.

Office personnel state they historically purchase enough postage at year end to cover any lag time if there is a delay in signing the next year's appropriation bill.

**Response:** The SOS will assign someone to conduct an annual analysis of postage needs to determine a reasonable carryover balance and to match postage expenditures with the proper fiscal year. The Office will develop procedures and policies to identify a reasonable balance of prepaid postage to keep on hand, keeping in mind that large volumes of mailing may be required on short notice (i.e. Constitutional amendments).

### **7. Adhere to required statutory time frames in processing invoice vouchers. Also, establish a system to track the date a Proper Bill is received and to calculate and pay interest on late payments. (Repeated-1999)**

**Findings:** The Office did not approve or deny invoice vouchers within 30 days and did not calculate interest on late payments to vendors as required by State Rules. From a sample of 123 invoice vouchers reviewed for timeliness during the audit, 16 vouchers totaling \$684,400 were approved more than 30 days past the date of receipts. Approvals ranged from 1 to 145 days late for amounts ranging from \$25 to \$417,135.

**Response:** Accepted. A memorandum dated September 24, 2002, was sent to all SOS fiscal officers to reiterate the requirements for timely submission of invoice vouchers and for written explanations of late submissions. The memorandum also requires SOS departments to date stamp every invoice or voucher upon receipt and to enter "Proper Billing Date" on the face of the voucher.

Every voucher is date stamped by the Voucher Section upon receipt. Internal procedures require Voucher Section employees to verify the date stamped on the invoice and the "Proper Billing Date" on the face of the voucher. If more than 20 days have passed between the date received by the Department and the date received by the Voucher Section, the voucher auditors are required to check for a written explanation from the Department. If the explanation is missing or is insufficient, the voucher is returned to the initiating department.

### **Accepted or Implemented - concluded**

**Updated Response:** A memorandum dated May 17, 2004 was sent to all Secretary of State Fiscal Officers to reiterate the requirements of a Proper Bill, and to ensure timely preparation and submission of vouchers after receiving a Proper Bill. This memorandum was issued as an initial step in the design and development of a system that will allow the Secretary of State to calculate and pay interest to vendors when required.

**8. Enforce policies requiring advance approval for out-of-state travel. (Repeated-2001)**

**Findings:** During the auditors' review of 50 out-of-state travel vouchers, they noted four vouchers totaling \$3,252 were not approved by the Secretary of State or his designee prior to the travel taking place as required by Office rules. Office personnel stated that verbal approval was received from the Executive Office prior to travel, but overlooked obtaining written approval.

**Response:** The SOS continues to strive toward the strict adherence of its policies. The Executive Office continues to remind employees proper written documentation must be completed and approved prior to out-of-state travel taking place.

**9. Implement procedures to submit all telephone calling card cancellation requests to the Telecommunications Coordinator immediately upon notification of a situation that necessitates cancellation, along with a reason for cancellation, to ensure adequate documentation and timely compliance. Make supervisors aware of all employees with calling cards so that they will ensure that one needs to be returned in the event of a separation. (Repeated-2001)**

**Findings:** The Office did not cancel telephone calling cards on a timely basis when an employee retires, transfers, or otherwise leaves the Office. When the auditors tested a sample of 25 telephone calling card cancellation requests, they noted that seven of 25 cards were not canceled for a period ranging from eight months to six years after the employee left the Office. The auditors did not note any instance of improper calls.

**Response:** Implemented. The SOS office has issued a memorandum to all department telecommunications coordinators and personnel officers (liaisons) regarding the cancellation of calling cards. The Office has reviewed the current call cardholders and cancelled all cards of separated Secretary of State employees.

Secretary of State has a policy requiring all existing Secretary of State employees to return State property, including calling cards, prior to the issuance of the employee's final check distribution or direct deposit. The Office shall conduct a comprehensive training session for all departments on the proper procedures for handling exiting employees.

**Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states that "the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief

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procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY02, the Office filed four affidavits for emergency purchases totaling \$3,247,091 for various repairs and renovations.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The Office of the Secretary of State indicated as of July 15, 2003 it had 232 employees that had been assigned to headquarters at a location other than that at which their duties require them to spend the largest part of their working time.